

Mississippi's Business



January 2011

Monitoring the State's Economy

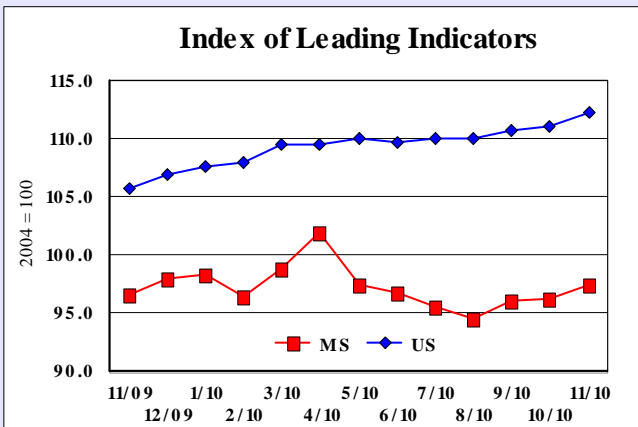
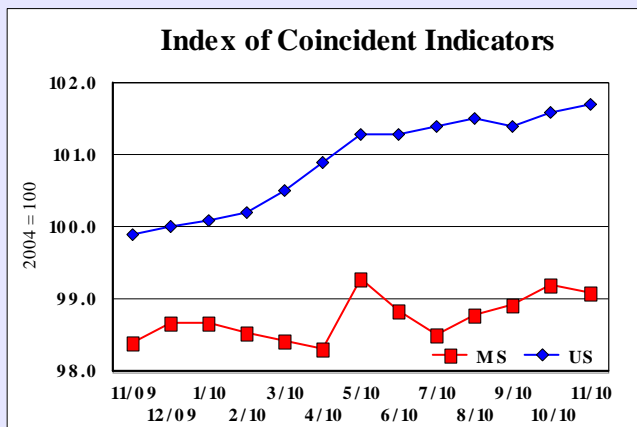
Volume 69 - Number 1

ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators fell a slight 0.1 percent in November relative to October. The Mississippi Index of Leading Indicators rose in November on top of an upwardly revised October level. Despite the dip in the Coincident Index, the economy appears to be strengthening. Mississippi employment has risen for four consecutive months. Growth in the State's economy remains slow by historical standards and is below the Nation's, but the outlook has improved. Nationally, the recovery is becoming increasingly self-sustaining. Christmas spending was likely the strongest since 2006. Auto sales have strengthened and both consumers and businesses are increasingly optimistic. The manufacturing industry is gaining strength and leading indicators suggest the improvement will continue in the coming months.

While the economy has strengthened, growth remains well below historical averages and the outlook remains for modest growth. There are at least four headwinds preventing stronger growth: a sluggish housing sector, lingering problems in the credit markets, tightening state, local and federal budgets, and continued uncertainty among consumers and businesses. While consumer and business sentiment is improving, the level is well below historical averages. Consumers in particular remain cautious. While recent trends show a willingness to spend, the consumer will not soon return to the liberal spending of the past. Consumer spending is not expected to be the economic driver of the economy it has been in the past. The economy will continue along the path of slow growth as the economy continues to work through the problems in credit and housing.

Index of Coincident and Leading Indicators



MISSISSIPPI'S BUSINESS is a publication from the Mississippi Institutions of Higher Learning Department of Forecast and Analysis. 3825 Ridgewood Road, Jackson, Mississippi 39211; Telephone (601) 432-6742; Fax (601) 432-6117
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Visit us on the Web: <http://www.ihl.state.ms.us/urc/planning/econdept.htm>

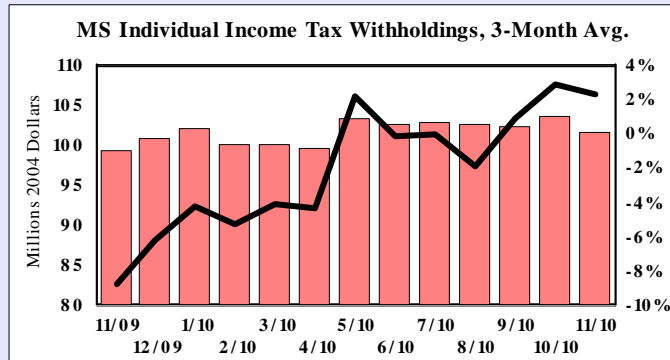
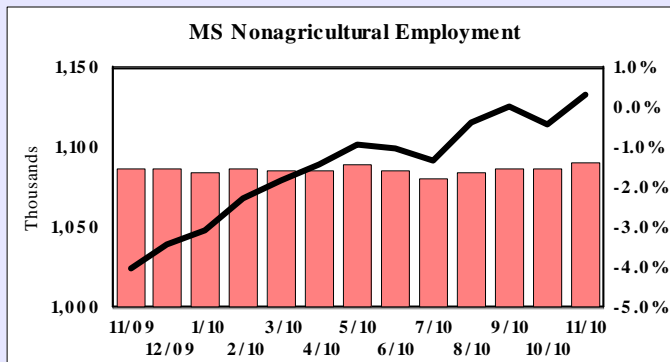
Coincident Index

The Mississippi Index of Coincident Indicators fell a modest 0.1 percent in November relative to October to a level of 99.1. The dip follows three monthly gains. The index was 0.7 percent above the year ago level. After twenty-seven months of being below the year ago level, growth has been positive for three consecutive months. The economy continues to show signs of modest recovery. The monthly decline was driven by a decline in withholdings.

The three month moving average of Mississippi individual income tax withholdings fell 1.9 percent in November relative to October. The decline was modest and temporary. The December data reveal withholdings regained most but not all of the ground that was lost in November.

Incomes appear to be gradually improving in Mississippi. The Bureau of Economic Analysis has released their latest estimates of income for the states. The figure below shows growth trends for the total personal income less transfer payments. Transfer payments include income received for which there is no good or service exchanged. Examples include social security benefits, welfare payments, and disability payments. By excluding transfers from total income we isolate those sources of income that are most directly affected by the business cycle. The figure on

Mississippi Index of Coincident Indicators Components



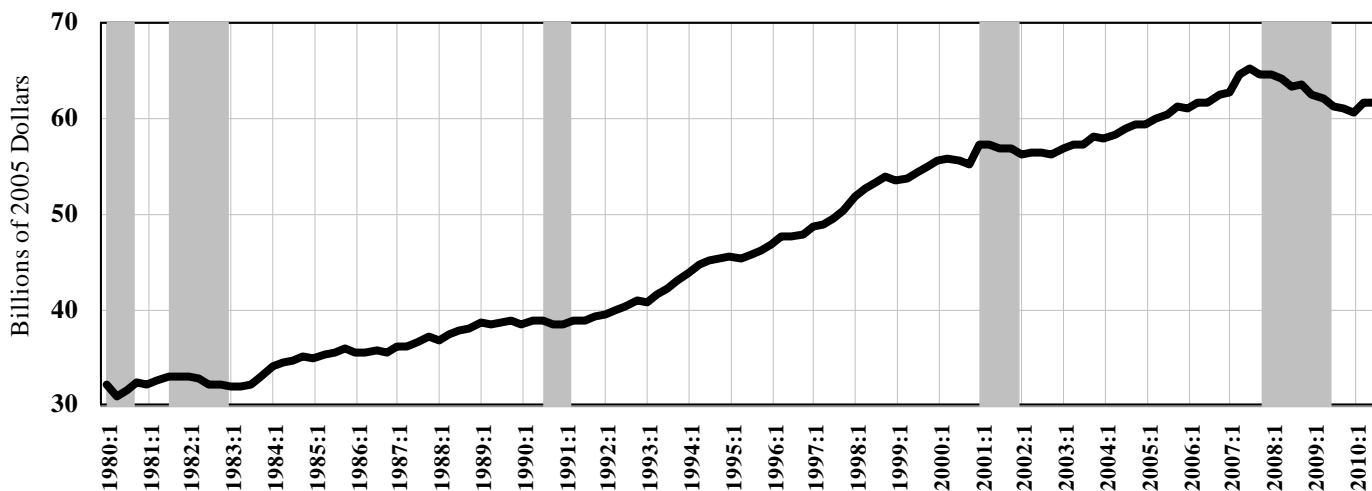
NOTE:

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

Sources:

Mississippi Department of Employment Security
Mississippi State Tax Commission

Real Total Personal Income Less Transfer Payments



Gray bars represent national recessions.

Mississippi Employment By Sector

Seasonally Adjusted

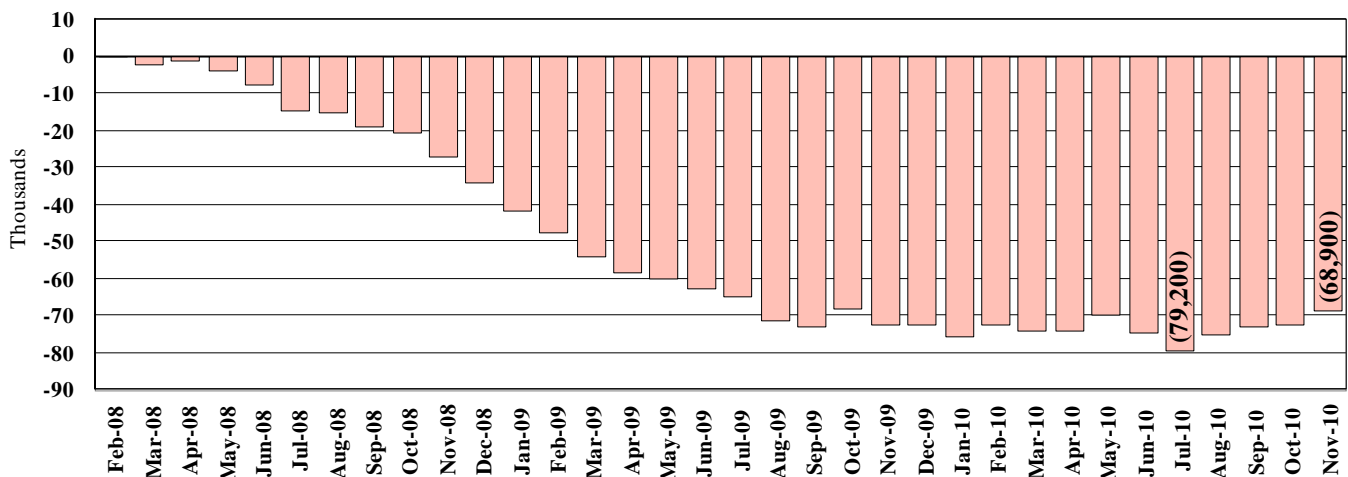
| | November 2010 | October 2010 | October 2009 | Change from Prior Month Level | % | Change from Prior Year Level | % |
|------------------------------------|------------------|-----------------|-----------------|-------------------------------------|-------|------------------------------------|-------|
| Total Nonfarm | 1,090,700 | 1,087,200 | 1,087,100 | 3,500 | 0.3% | 3,600 | 0.3% |
| Mining and Logging | 8,800 | 8,900 | 8,100 | (100) | -1.1% | 700 | 8.6% |
| Construction | 45,800 | 45,300 | 47,700 | 500 | 1.1% | (1,900) | -4.0% |
| Manufacturing | 134,500 | 134,100 | 137,600 | 400 | 0.3% | (3,100) | -2.3% |
| Trade | 213,100 | 213,800 | 211,900 | (700) | -0.3% | 1,200 | 0.6% |
| Retail Trade | 131,700 | 132,600 | 132,900 | (900) | -0.7% | (1,200) | -0.9% |
| Information | 12,220 | 12,312 | 12,517 | (91) | -0.7% | (296) | -2.4% |
| Financial Activities | 44,496 | 45,137 | 45,168 | (641) | -1.4% | (672) | -1.5% |
| Services | 385,700 | 380,500 | 372,000 | 5,200 | 1.4% | 13,700 | 3.7% |
| Professional and Business Services | 91,100 | 88,400 | 85,200 | 2,700 | 3.1% | 5,900 | 6.9% |
| Education and Health Services | 136,100 | 135,500 | 133,200 | 600 | 0.4% | 2,900 | 2.2% |
| Leisure and Hospitality | 122,400 | 120,300 | 118,000 | 2,100 | 1.7% | 4,400 | 3.7% |
| Other Services | 36,100 | 36,300 | 35,600 | (200) | -0.6% | 500 | 1.4% |
| Government | 246,100 | 247,100 | 252,100 | (1,000) | -0.4% | (6,000) | -2.4% |

the bottom of page 2 puts the “Great Recession” in perspective with the historical trends. After declining for nine out of ten quarters, the series has risen for two consecutive quarters.

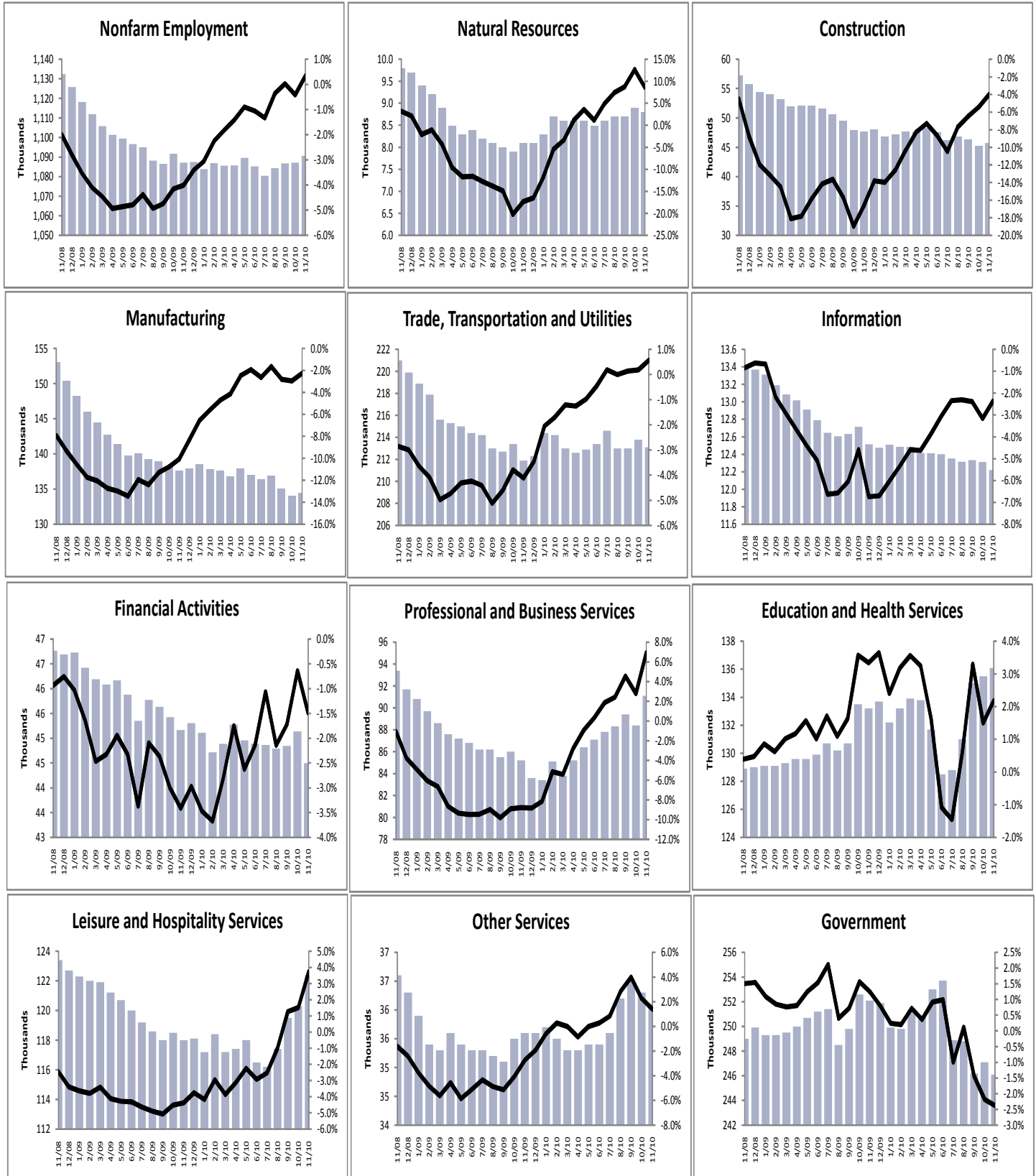
Nonfarm employment rose 0.3 percent or 3,500 jobs in November relative to October. The largest gains occurred in professional and business services and leisure and hospitality. Although the gains have been modest employment has risen for four consecutive months. The largest decline occurred in the government sector. This was primarily local government employment.

Employment remains well below the peak of February 2008. At the depth of the employment contraction, the State had lost 79,200 jobs since February 2008 (see figure below). In November the State was 68,900 jobs below the peak. The State has added over 10,000 jobs in the past four months. While growth prospects have improved in recent weeks, it will likely be 2015 before the State regains all of the jobs lost during the “Great Recession”. In the 2000-2003 employment contraction the State lost 52,300 jobs. When the State again peaked in employment in February 2008, it had not quite regained all of those jobs.

Jobs Lost Since February 2008



Mississippi Employment Trends



Note: The bar graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis.

The line graphs represent the growth over the prior year's value and correspond to the right-hand axis.

Source: U.S. Bureau of Labor Statistics. Seasonal adjustment of the financial activities and information industries done by IHL.

Leading Index

The Mississippi Index of Leading Indicators rose 1.2 percent to 97.5 in November. The index has risen for three consecutive months. The growth relative to the level six-months prior turned positive in November. The gain was small, but is a welcomed departure from five months of decline. Similarly, the growth relative to the prior year was positive for the first time in six months. The monthly gain was broadly supported with four of the five components contributing positively.

The U.S. Index of Consumer Expectations rose 4.7 percent in November relative to the October level. Recently released data show the upward trend continued in December and early January. The index remains low by historical standards, but shows consumers are gaining confidence. The Mississippi survey for the fourth quarter of 2010 showed Mississippians reached their the highest level of confidence in two years. (<http://www.economywatch.msstate.edu>)

The average manufacturing workweek length rose in November to 39.6 hours. This compared to 39.3 hours in October and 39.7 hours in November 2009. The monthly gain was negligible.

The Institute for Supply Management (ISM) Index of U.S. Manufacturing Activity rose to 57.0 in December from 56.6 in November. The December index was highest since May 2010. The gains in this series suggest the economy is gaining momentum and is increasingly self-sustaining.

The Mississippi value of residential building permits rose 4.0 percent in November relative to October. The monthly gain is the third in four months. The November level was the highest since April 2010. Nationally, the housing sector remains troubled, with an over-supply of housing. Housing starts in Mississippi are over 60 percent below the level of 2005. CoreLogic reports that home prices fell 8.4 percent in Mississippi in November 2010 relative to 2009 (includes distressed sales).

Initial unemployment claims for Mississippi rose 7.0 percent in November. The gain follows two months of decline. The monthly gain is relatively small but the series remains above the historical levels.

Miscellaneous Indicators

The Mississippi diesel fuel consumption index rose modestly in November. The November index was the highest since July.

Mississippi retail sales rose 0.7 percent in November relative to October. Relative to the year ago level, the series was up 1.8 percent. Growth in Christmas shopping across the nation appears to have been the strongest since 2006. Consumer are now willing to spend, even on large ticket items like autos. December light vehicle sales for the U.S. were the strongest since September 2008, excluding August 2009 which was inflated by the cash-for-clunkers program. But this does not mean that consumer have lost all of their caution. Uncertainty still exists and consumer and small business sentiment, while improving remains below historical trends.

U.S. Economy

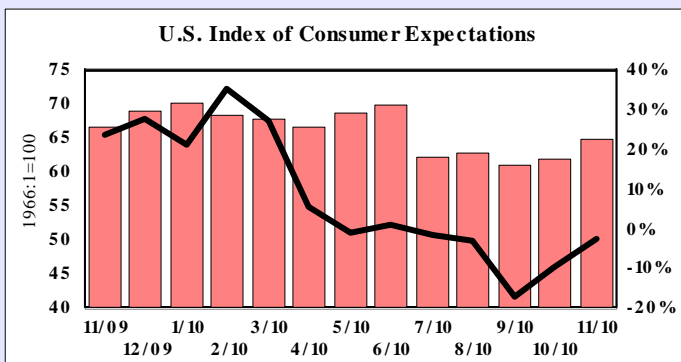
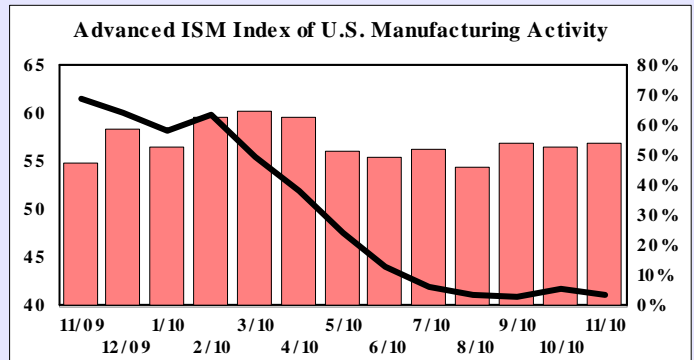
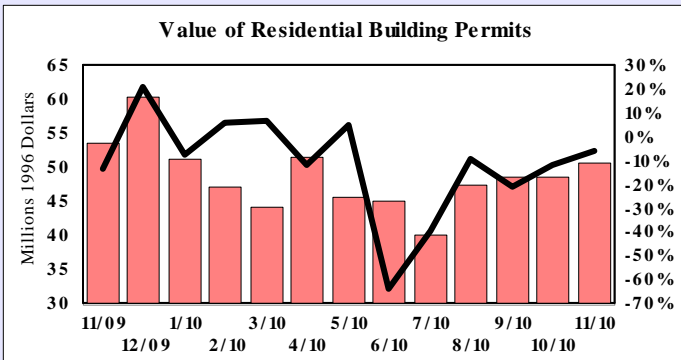
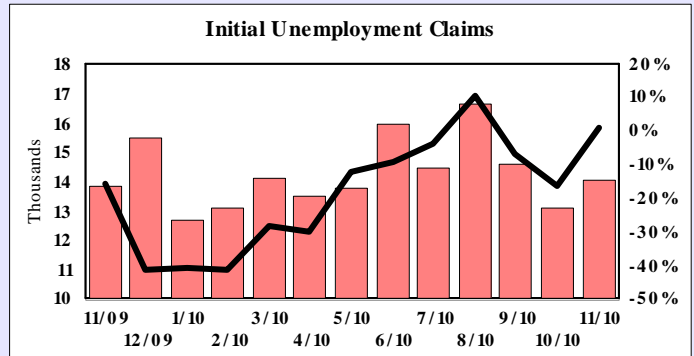
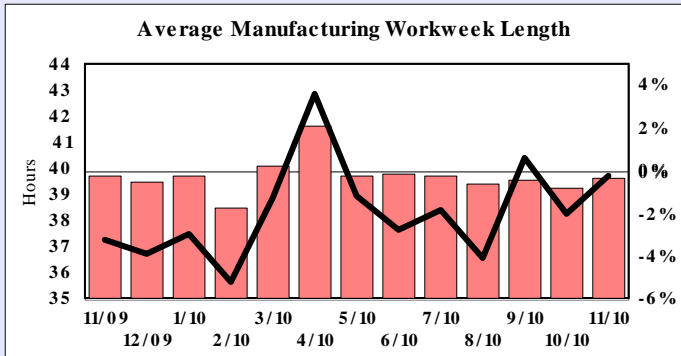
The U.S. Index of Coincident Indicators rose 0.1 percent in November, while the Index of Leading Indicators rose 1.1 percent. The strong gain in the Leading Index supports the belief that the economy will gain momentum in 2011.

The economic outlook has improved in recent months and economists are upwardly revising their projections for 2011. Helping to fuel the improved outlook is the extension of the Bush tax cuts as well as the fiscal stimulus included in the legislation. Washington has reduced employee payroll tax for 2011 by two percentage points and given a two year extension of depreciation incentives for business investment.

Despite the growing optimism, there remains troubles in the economy that will limit growth to a level that is well below historical averages. There are at least four headwinds that will dampen growth.

First, the housing market remains mired in troubles. While prices seem to have stabilized, there is a significant risk that they could fall further. There is a large and growing supply of housing on the market and it will take years for the industry to fully recover.

Mississippi Index of Leading Indicators Components



NOTE:

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

Sources:

- Bureau of Labor Statistics
- Bureau of the Census
- The Conference Board
- The Institute for Supply Management

Second, credit markets also remain tight as banks face deteriorating asset quality and increased and uncertain regulations. Credit is the grease of the business engine.

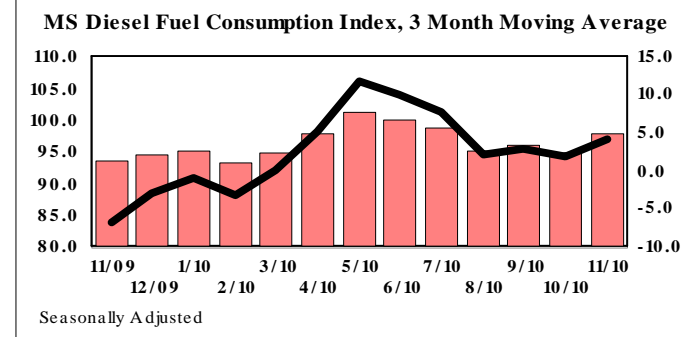
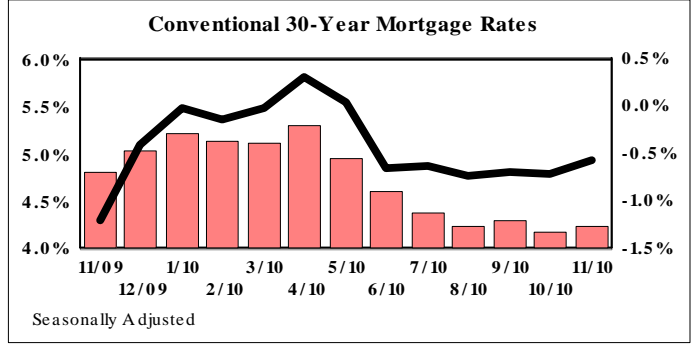
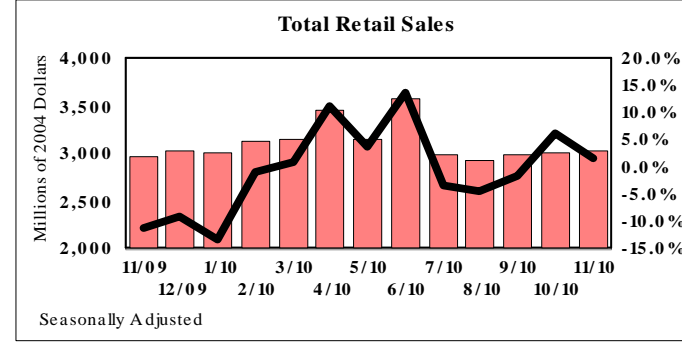
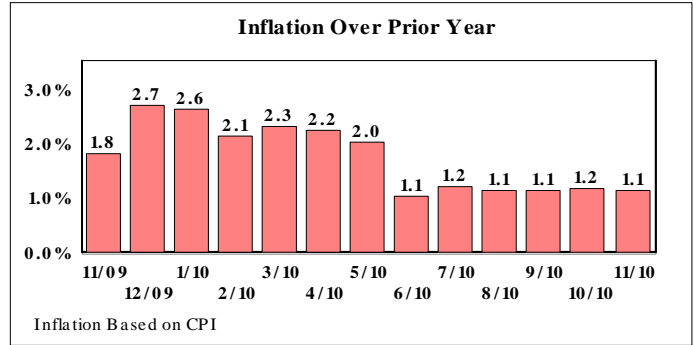
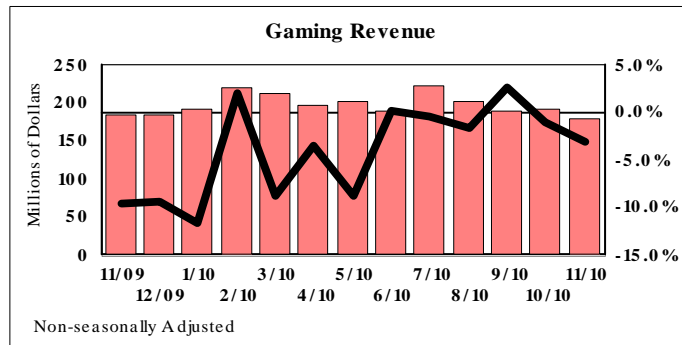
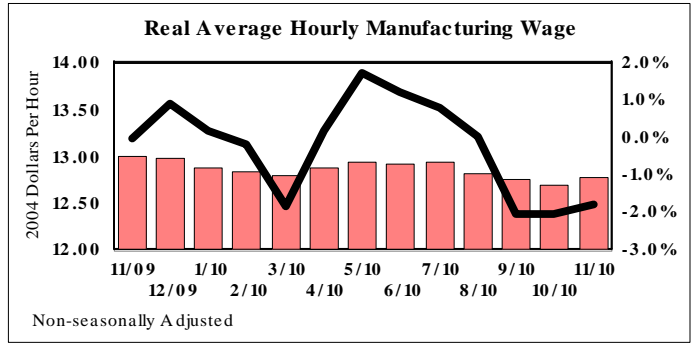
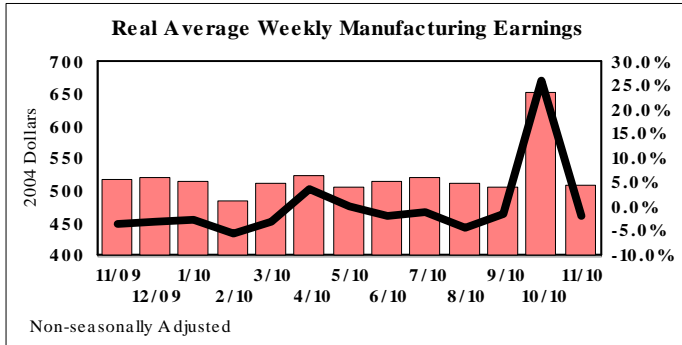
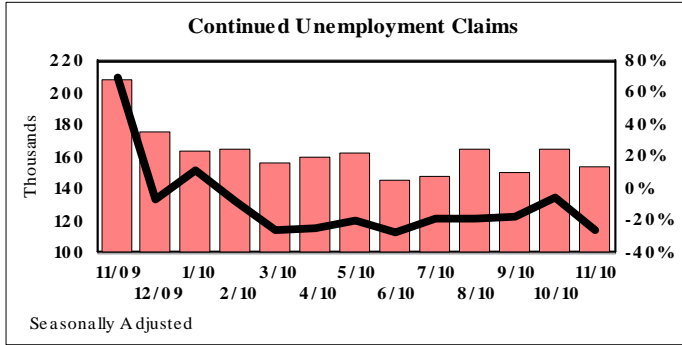
Third, State local and federal governments face tightening budgets as needs continue to rise while revenue is declining. Local governments in particular are being hit hard as they often rely on sales and property taxes, both of which have been especially affected by recession.

Finally, uncertainty remains an issue in the economy. While this has improved and will likely continue to improve, consumers have been badly burned in this

recession. They are not like to soon return to the liberal spending of the past.

These four forces will keep growth below historical averages. With that said, 2011 is expected to be an improvement from 2010. IHS Global Insight believes gross domestic product grew 2.9 percent in 2010. For 2011 they expect growth to rise to 3.2 percent then moderate in 2012 to 2.9 percent as the stimulus effects fade. These growth rates compare to 3.8 percent average growth during the expansion periods of the last 50 years. Many economist now believe that slow growth is the new norm.

Miscellaneous Indicators



NOTE:

The bar graphs above represent the monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

Sources:

- Mississippi Department of Employment Security
- Mississippi Tax Commission
- Mississippi Gaming Commission
- Federal Home Mortgage Corporation
- Bureau of Labor Statistics
- University Research Center

SELECTED MISSISSIPPI ECONOMIC INDICATORS

| | November 2010 | October 2010 | November 2009 | Change From Last Month | Change From Last Year |
|--|------------------|-----------------|------------------|---------------------------|--------------------------|
| Coincident Indicator Index (2004=100) | 99.1 | 99.2 | 98.4 | -0.1% | 0.7% |
| Nonagricultural Employment (thousands) | 1,090.7 | 1,087.2 | 1,087.1 | 0.3% | 0.3% |
| Individual Income Tax Withholdings, 3-Month Average (millions of 2004 \$) | 101.7 | 103.7 | 99.4 | -1.9% | 2.3% |
| Leading Indicator Index (2004=100) | 97.5 | 96.3 | 96.7 | 1.2% | 0.8% |
| Initial Unemployment Claims | 14,042 | 13,125 | 13,865 | 7.0% | 1.3% |
| Value of Residential Building Permits (millions of 2004 \$) | 50.7 | 48.7 | 53.6 | 4.0% | -5.4% |
| Average Manufacturing Workweek Length (hours) | 39.6 | 39.3 | 39.7 | 0.8% | -0.2% |
| Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the December index is reported for November. | 57.0 | 56.6 | 54.9 | 0.7% | 3.8% |
| U.S. Index of Consumer Expectations | 64.8 | 61.9 | 66.5 | 4.7% | -2.6% |
| Miscellaneous | | | | | |
| Consumer Price Index U.S. (2004=100) | 115.8 | 115.8 | 114.5 | 0.0% | 1.1% |
| Unemployment Rate (percentage) | | | | | |
| Non-seasonally adjusted | 9.8% | 9.7% | 9.6% | 0.1% | 0.2% |
| Seasonally adjusted | 9.9% | 9.7% | 10.4% | 0.2% | -0.5% |
| Continued Unemployment Claims | 153,713 | 164,387 | 208,134 | -6.5% | -26.1% |
| Average Manufacturing Wage (non-seasonally adjusted) | | | | | |
| Current Dollars per Hour | 14.80 | 14.70 | 14.90 | 0.7% | -0.7% |
| 2004 Dollars per Hour | 12.78 | 12.70 | 13.01 | 0.6% | -1.8% |
| Average Weekly Manufacturing Earnings (non-seasonally adjusted) | | | | | |
| Current Dollars | 589.04 | 756.24 | 593.02 | -22.1% | -0.7% |
| 2004 Dollars | 508.49 | 653.10 | 517.78 | -22.1% | -1.8% |
| U.S. Mortgage Rates (30-year conventional) | 4.2% | 4.2% | 4.8% | 0.1% | -0.6% |
| Gaming Revenues (non-seasonally adjusted) | | | | | |
| Coast counties (millions of current \$) | 85.7 | 88.1 | 87.2 | -2.7% | -1.8% |
| River counties (millions of current \$) | 94.0 | 103.5 | 98.3 | -9.2% | -4.3% |
| Total | 179.7 | 191.6 | 185.5 | -6.2% | -3.1% |
| MS Diesel Fuel Consumption Index (3 Month Moving Average) | 97.88 | 94.93 | 93.75 | 3.1% | 4.4% |
| Total Retail Sales (millions of 2004 \$) | 3,031.85 | 3,011.95 | 2,979.46 | 0.7% | 1.8% |

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.